

**BLACK HAWK SANITARY DISTRICT
BLACK HAWK, SOUTH DAKOTA**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

FOR THE YEAR ENDED DECEMBER 31, 2011

**CATHERINE HAVEMAN
CERTIFIED PUBLIC ACCOUNTANT**

BLACK HAWK SANITARY DISTRICT
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Black Hawk Sanitary District
Black Hawk, South Dakota

I have audited the financial statements of Black Hawk Sanitary District as of December 31, 2011, and for the year then ended which collectively comprise the District's basic financial statements and have issued my report thereon dated June 21, 2012 which was qualified because the Black Hawk Sanitary District does not report donated land and land rights on its financial statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Black Hawk Sanitary District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings, I identified a deficiency in internal control over financial reporting that I consider to be a material weakness and other deficiencies that I consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described in the accompanying Schedule of Current Audit Findings as item 2011-1 to be a material weakness.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2011-2 and 2011-3 to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulation, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Black Hawk Sanitary District's responses to the findings identified in my audit are described in the accompanying Schedule of Current Audit Findings. I did not audit the District's responses and, accordingly, I express no opinion on them.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of Black Hawk Sanitary District and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 this report is matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read 'Catherine Haveman', with a stylized, flowing script.

Catherine Haveman
Certified Public Accountant

June 21, 2012

BLACK HAWK SANITARY DISTRICT
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2011

PRIOR AUDIT FINDINGS

Finding 2010-1 relating to segregation of duties has not been corrected and is repeated for the current year as finding 2011-1.

Finding 2010-2 relating to land and land rights has not been corrected and is repeated for the current year as finding 2011-2.

Finding 2010-3 relating to preparation of financial statements has not been corrected and is repeated for the current year as finding 2011-3.

CURRENT AUDIT FINDINGS

2011-1 Segregation of Duties

Finding - There is a weakness in the internal controls in place at Black Hawk Sanitary District relating to a general lack of segregation of duties over the cash, receivables, and revenue and expenditure functions. All of these duties are performed primarily by one individual.

Criteria - Segregation of duties is an integral part of an internal control system.

Effect - This condition could result in errors in the accounting and recording keeping function which may not be detected in a timely manner. This condition also increases the potential for fraud to occur.

Recommendation - The Board of Directors must be constantly cognizant of this situation and provide compensating internal controls whenever practical in order to provide appropriate financial oversight for the activities of the District.

Response

The District financial activities are currently performed primarily by a single board member. There are no employees of the district. The board currently has another board member that time to time will assist in the financial duties and improve internal controls.

2011-2 Land and Land Rights

Finding - The District has not determined an appropriate estimated historical value of its land and land rights.

Criteria - Generally accepted accounting principles require that land and land rights be appropriately valued and reported on the financial statements of the District

BLACK HAWK SANITARY DISTRICT
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2011

CURRENT AUDIT COMMENTS (Continued)

2011-2 Land and Land Rights (continued)

Effect - No land or land rights are reported on the financial statements which understates the District's capital assets.

Recommendation - The District should determine a value for all land and land rights including lots, parcels, easements and rights of way. These items should be valued at actual historical cost or estimated cost of acquisition. If any land or land rights were contributed to the District they should be valued at fair market value as of the date of the contribution. The method of valuing these assets should be documented and maintained with the permanent records of the District.

Response - The Board has compiled information relating to land and land rights however, no valuation has been done.

2011-3 Financial Statement Preparation

Finding - The District has requested that I prepare the financial statements as part of the auditing services. In addition, the adjustments required to prepare the financial statements were not compiled and posted until after it was determined by the auditor that they had not been made. I have provided a draft of the financial statements and instructed management to review these financial statements in detail for their accuracy.

Criteria - Management is responsible for preparation of the District's financial statements. As part of this process management must also identify and post needed year-end entries to the general ledger. A good system of internal control provides an adequate system for recording and processing entries material to the financial statements.

Effect - This situation could result in errors and misstatements in the financial statements that would not be prevented or detected by management in the normal course of business.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition.

Response - The Board of Directors will continually review the process for preparation of the financial statements and accompanying notes. The Board is currently willing to accept any risk relating to the preparation of the financial statements.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Black Hawk Sanitary District
Black Hawk, South Dakota

I have audited the accompanying basic financial statements of Black Hawk Sanitary District as of December 31, 2011, and for the year then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Black Hawk Sanitary District's management. My responsibility is to express an opinion on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. And audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

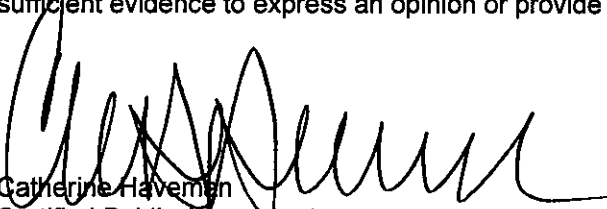
Black Hawk Sanitary District does not report donated land and land rights on its financial statements. Accounting principles generally accepted in the United States of America require that donated land and land rights be valued at fair market value at the time of the donation or at historical cost or estimated historical cost if actual cost is not readily available and, reported as a capital asset. This would increase capital assets reported on the District's financial statements. The amount by which this departure affects capital assets is not determinable.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had land and land rights been included on the financial statements and had I been able to audit the reported land and land rights, the financial statements referred to above present fairly, in all material respects, the financial position of Black Hawk Sanitary District as of December 31, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 21, 2012 on my consideration of Black Hawk Sanitary District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of my audit testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquires, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



Catherine Haveman
Certified Public Accountant

June 21, 2012

BLACK HAWK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

This section presents the Black Hawk Sanitary District's discussion and analysis of the District's financial performance during the fiscal year ended on December 31, 2011. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Black Hawk Sanitary District is a special purpose government organized under Meade County, South Dakota as an incorporated sanitary district with road district powers. The District provides sewer service to 199 homes plus Black Hawk Elementary School, and BJ's Supermarket. We also take care of road repairs, provide streetlights and snow removal.

The Black Hawk Sanitary District operates on money charged to homeowners for service. Current charges are \$45 per month for sewer and \$20 per month for all other expenses of the District.

In addition road tax money is levied and collected by Meade County and remitted to Black Hawk Sanitary District to be used for road repairs and maintenance.

We are working to keep expenses as low as possible and still serve the needs of the elderly and people living on fixed incomes within the District.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis (this section) and the basic financial statements, including related notes.

The financial statement notes explain some of the information in the financial statements and provide more detailed data.

FINANCIAL STATEMENTS

The financial statements report information about the District using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets.

The District operates as a proprietary fund. The District charges a fee to customers to cover the costs of the sanitary services it provides. The District also provides road maintenance which is paid for by a road tax levied by the County and remitted to the District.

BLACK HAWK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

FINANCIAL ANALYSIS OF THE DISTRICT

Net Assets

The District's net assets decreased by 0.11% between fiscal year 2011 and 2010 – decreasing by \$1,257

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Current and Other Assets	\$ 527,673	\$ 490,290	7.62%
Capital Assets	<u>1,024,326</u>	<u>1,079,990</u>	-5.15%
Total Assets	<u>1,551,999</u>	<u>1,570,280</u>	-1.16%
Other Liabilities	23,601	18,124	-55.93%
Long-Term Liabilities Outstanding	<u>346,819</u>	<u>369,320</u>	-1.87%
Total Liabilities	<u>370,420</u>	<u>387,444</u>	-4.39%
Net Assets:			
Invested in Capital Assets Net of Related Debt	661,894	697,366	-5.00%
Restricted	25,852	14,222	81.77%
Unrestricted	<u>493,833</u>	<u>471,248</u>	4.79%
Total Net Assets	\$ <u>1,181,579</u>	\$ <u>1,182,836</u>	-0.11%

The Statement of Net Assets reports all financial and capital resources with the exception of land and land rights. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of revenue bonds payable, have been reported in this manner on the Statement of Net Assets. The difference between the District's assets and liabilities is its net assets.

The District's net assets reflect its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens.

The District's restricted net assets represent resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations or debt covenants.

The remaining balances of net assets are unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current year, the District is able to report positive balances in all three categories of net assets. The same situation held true for the prior year.

BLACK HAWK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

BUSINESS-TYPE ACTIVITIES

Operating revenues of the District increased 0.38% to \$166,246 and operating expenses increased by 2.31% to \$166,440

	2011	2010	Change
Total Operating Revenue	\$ 166,246	\$ 165,616	0.38%
Total Operating Expenses	(166,440)	(162,684)	2.31%
Net Operating Income	(194)	2,932	106.62%
Total Non-Operating Revenue or Expense	(1,063)	(24,619)	-95.68%
Changes In Net Assets	(1,257)	(21,687)	-94.20%

CAPITAL ASSET ADMINISTRATION

By the end of 2011 the District has invested \$1,369,463 in capital assets consisting primarily of a sewer collection system. No capital assets were purchased during 2011.

LONG-TERM DEBT

The District has a sewer revenue bond with a current balance of \$ 362,432. This is a SRF loan obtained through the issuance of revenue bonds and will be repaid with revenue from the sewer system operations.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Black Hawk Sanitary District, PO Box 528, Black Hawk, SD 57718.

FINANCIAL STATEMENTS

BLACK HAWK SANITARY DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2011

ASSETS

Current Assets

Cash	\$ 498,644
Accounts Receivable-Net	29,029
Total Current Assets	<u>527,673</u>

Non-Current Assets

Capital Assets:	
Improvements - Sewer System	1,232,693
Improvements - Sidewalks and Streets	136,770
Accumulated Depreciation	<u>(345,137)</u>
Total Non-current Assets	<u>1,024,326</u>

<u>TOTAL ASSETS</u>	<u>\$ 1,551,999</u>
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LIABILITIES AND NET ASSETS

Liabilities

Current Liabilities

Accounts Payable	\$ 7,988
Bonds Payable-Current	15,613
Total Current Liabilities	<u>23,601</u>

Non-Current Liabilities:

Bonds Payable	346,819
Total Non-Current Liabilities	<u>346,819</u>

<u>TOTAL LIABILITIES</u>	<u>370,420</u>
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Net Assets

Invested in Capital Assets, Net of Related Debt	661,894
Restricted for Road Maintenance	25,852
Unrestricted	<u>493,833</u>

<u>TOTAL NET ASSETS</u>	<u>1,181,579</u>
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<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 1,551,999</u>
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The accompanying notes are an integral part of this statement.

BLACK HAWK SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

OPERATING REVENUES:

Charges for Services	\$ 166,246
Total Operating Revenue	<u>166,246</u>

OPERATING EXPENSES:

Office Expense	5,899
Sewer Repair and Maintenance	11,256
Depreciation	55,664
Utilities	77,607
Insurance	4,468
Professional Fees	11,025
Travel	521
Total Operating Expenses	<u>166,440</u>

<u>OPERATING INCOME</u>	<u>(194)</u>
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NON-OPERATING REVENUE (EXPENSE)

Interest Income	2,948
Interest Expense	(13,129)
Road Repair and Maintenance	(11,446)
Road Tax Revenue	20,564
Total Non-Operating Revenue	<u>(1,063)</u>

<u>CHANGES IN NET ASSETS</u>	(1,257)
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<u>TOTAL NET ASSETS – January 1, 2011</u>	<u>1,182,836</u>
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<u>TOTAL NET ASSETS – December 31, 2011</u>	<u>\$1,181,579</u>
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The accompanying notes are an integral part of this statement.

BLACK HAWK SANITARY DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 165,259
Payments to Suppliers	107,607

Net Cash Provided (Used) by Operating Activities	<u>57,652</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Road Repair and Maintenance	(11,446)
County Revenue-Road Tax	20,564

Net Cash Provided by Noncapital Financing Activities	<u>9,118</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal Paid on Bonds	(20,192)
Interest Paid on Bonds	(13,129)

Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(33,321)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest Earnings	<u>2,948</u>
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Net Cash Provided by Investing Activities	<u>2,948</u>
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<u>NET INCREASE IN CASH</u>	36,397
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<u>CASH – BEGINNING</u>	<u>462,247</u>
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<u>CASH – ENDING</u>	<u>\$ 498,644</u>
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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$ (194)
Add Non-Cash Adjustments:	
Depreciation	55,664
	<u>55,470</u>

Change in Assets and Liabilities:	
Receivables	(987)
Payables	3,169
	<u>2,182</u>

Net Cash Provided by Operating Activities	<u>\$ 57,652</u>
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The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

BLACK HAWK SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Financial Reporting Entity

The Black Hawk Sanitary District (the District) was formed pursuant to the provisions of South Dakota Codified Law 34A-5 as an incorporated sanitary district with road district powers. The basic operations of the District include construction, operation and maintenance of sewage disposal facilities and road construction and maintenance and are financed by user charges and a road tax levy. These operations are accounted for, and reported as, an enterprise fund.

The reporting entity of the Black Hawk Sanitary District consists of all funds and accounts of the primary government – Black Hawk Sanitary District. Component units are legally separate organization for which the elected officials of the primary government are financially accountable. The District is not included in any other governmental entity as a component unit. There are no component units which are required to be included in the District's reporting entity.

b. Basis of Presentation

All activities of the District are accounted for within a single proprietary (enterprise) fund.

Proprietary Funds:

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise fund does not apply any FASB Statements and Interpretations issued after November 30, 1989.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the financial statements. Basis of accounting refers to "when" revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

In the financial statements, the "economic resources" measurement focus and the accrual basis of accounting are applied.

Basis of Accounting:

The fund is accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

BLACK HAWK SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. **Capital Assets**

All acquisitions of capital assets in excess of \$500 that are used in operations and have initial useful lives extending beyond a single reporting period are capitalized.

Capital assets are recorded at historical cost. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

For capital assets, construction period interest is capitalized in accordance with USGAAP.

Depreciation of capital assets is recorded as an expense in the accompanying financial statement.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Useful Life</u>
Improvements other than Buildings:			
Sewer Improvements	\$ 500	Straight-line	25 yrs
Sidewalks and Ramps	\$ 500	Straight-line	15 yrs
Streets	\$ 500	Straight-line	20 yrs

e. **Long-Term Liabilities**

All long-term are accounted for on the accrual basis of accounting.

f. **Proprietary Funds Revenue and Expense Classification**

In the proprietary fund Statement of Revenues, Expenses and Changes in Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of income from operations.

g. **Cash and Cash Equivalents**

For the purposes of the Statement of Cash Flows, the District considers all deposits including restricted assets with a term to maturity of three months or less, at date of acquisition, to be cash equivalents.

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts.

BLACK HAWK SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded):

h. Equity Classifications

Equity is classified as net assets and is displayed in three components

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints places on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

i. Application of Net Assets

It is the District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The District's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1 and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

BLACK HAWK SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (Continued):

Credit Risk – State law limits eligible investments for the District, as discussed above. The District has no investment policy that would further limit its investment choices. The District held no investments during the year or at December 31, 2011.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2011 the District's deposits in financial institutions were not at risk.

Custodial Credit Risk – Investments – The risk that, in the event of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities in the possession of an outside party. The District had no investments at December 31, 2011 or during the year 2011.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 3. RECEIVABLES

Receivables are not aggregated in these financial statements. The District expects all receivables to be collected within one year.

NOTE 4. ROAD TAX REVENUE

Road taxes are levied by Black Hawk Sanitary District on or before October 1 of each year. These taxes become due the following January 1, and are payable in two installments on or before April 30 and October 31.

NOTE 5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2011 is as follows:

	Balance			Balance
	01/01/2011	Increases	Decreases	12/31/2011
Capital assets, being depreciated:				
Improvements Other Than Buildings:				
Sewer Improvements	\$ 1,232,693	\$ -0-	\$ -0-	\$ 1,232,693
Sidewalk and Streets	136,770	-0-	-0-	136,770
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	(289,473)	(55,664)	-0-	(345,137)
Net Capital Assets being Depreciated	\$ 1,079,990	\$ (55,664)	\$ -0-	\$ 1,024,326

BLACK HAWK SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 6 LONG-TERM DEBT

A summary of changes in long-term debt is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue	\$ 382,624	\$ -0-	\$ 20,192	\$ 362,432	\$ 15,613
Total Debt	\$ 382,624	\$ -0-	\$ 20,192	\$ 362,432	\$ 15,613

Debt payable at December 31, 2011 consists of the following:

Revenue Bonds:

SRF - Sewer Revenue Bond; payable in 80 quarterly installments of \$ 8,330. Bears an interest rate of 3.5% per annum. This loan will be paid in full in 2025 \$ 362,432

The Sewer Revenue Bond, which was issued in 2003 for the purpose of construction of facilities necessary to convey wastewater to the Rapid City Wastewater Reclamation Facility, contains provisions which pledge the future net revenues of the customers of the sewer system, including investment income, as security for the principal and interest payments on the bond.

Annual Requirements to Amortize Long-Term Debt
December 31, 2011

Year	Revenue Bonds	
Ending Dec. 31	Principal	Interest
2012	\$15,613	\$ 9,378
2013	21,462	11,859
2014	22,223	11,098
2015	23,011	10,310
2016	23,827	9,494
2017 – 2021	132,425	34,180
2022 – 2025	123,871	9,412
TOTAL	\$362,432	\$95,731

BLACK HAWK SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 7. OPERATING LEASES

The District leases office space under an operating lease agreement calling for quarterly payments of \$975. This lease is renewable annually.

NOTE 8. RESTRICTED NET ASSETS

Restricted net assets for the year ended December 31, 2011 were as follows:

Net Assets – Restricted for Road Maintenance \$25,852

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the year ended December 31, 2011, the District managed its risks as follows:

Liability Insurance:

The District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public from a commercial insurance carrier.